

Underpayment of Estimated Tax - Corporations

General Instructions

For assistance, please contact one of the Taxpayer Information and Assistance numbers:

Phoenix(602) 255-3381
Tucson(520) 628-6421
Other Arizona areas1-800-352-4090
Form Orders(602) 542-4260
Forms by FAX(602) 542-3756
Recorded Tax Information
Phoenix(602) 542-1991
Other Arizona areas1-800-845-8192
Hearing impaired TDD user
Phoenix(602) 542-4021
Other Arizona areas1-800-397-0256

If the taxpayer's Arizona tax liability is \$1,000 or more, the taxpayer must complete this form whether or not it is subject to the penalty.

Purpose of Form

Form 220 should be used by entities filing Forms 99T, 120, and 120S that are required to make Arizona estimated tax payments. Form 220 is used by the taxpayer in order to determine whether it is subject to penalty and interest for underpayment of its Arizona estimated tax liability and, if so, the amount of the penalty and interest. The taxpayer's Arizona estimated tax liability is determined as follows: (a) for Form 120 and 120S filers, income tax plus tax from recapture of tax credits less tax credits plus correctional industries recapture tax; (b) for Form 99T filers, income tax.

Is the Taxpayer Subject to the Penalty?

If the taxpayer's Arizona tax liability is less than \$1,000 the taxpayer is not subject to this penalty. Arizona tax liability is on Form 99T, line 4; Form 120, line 25; or Form 120S, line 21.

NOTE: *Taxpayers that filed amended consolidated returns and have a retroactive consolidation tax payment credit available should use the Arizona tax liability after application of that credit for purposes of computing underpayment of estimated tax. Taxpayers computing the Arizona tax liability under the claim of right provisions of A.R.S. § 43-1130.01 should use the Arizona tax liability reduced by those provisions for purposes of computing underpayment of estimated tax.*

Should the Taxpayer Complete This Form?

If its Arizona tax liability is \$1,000 or more, the taxpayer must complete this form whether or not it is subject to the penalty. Attach the completed Form 220 to the Form 99T, Form 120, or Form 120S and check the box on Form 99T (line 11), Form 120 (line 33) or Form 120S (line 28). The department assesses a penalty if the taxpayer does not attach the completed Form 220 and check the box on the appropriate line of its Arizona tax return.

A unitary group of corporations filing a combined return on Form 120 must make its estimated tax payments on a combined basis. Therefore, a unitary group, as a single taxpayer, must compute the underpayment of estimated tax penalty on a combined basis if its Arizona tax liability for the taxable year is \$1,000 or more.

An Arizona affiliated group filing a consolidated return pursuant to ARS § 43-947 on Form 120 must make its estimated tax payments on a consolidated basis. Therefore, an Arizona affiliated group, as a single taxpayer, must compute the underpayment of estimated tax penalty on a consolidated basis if its Arizona tax liability for the taxable year is \$1,000 or more.

How To Use This Form

Complete Part A to determine if the taxpayer has an underpayment for any of the four installment due dates. If the taxpayer has an underpayment on line 11 (column (a), (b), (c), or (d)), go to Part B to calculate the penalty. Attach the completed Form 220 to the taxpayer's Arizona tax return and check the box on Form 99T, page 1, line 11; Form 120, page 1, line 33; or Form 120S, page 1, line 28.

Line-by-Line Instructions

Complete the name and taxpayer identification number section at the top of the form. Form 220 must be completed and attached to the taxpayer's return if the taxpayer's Arizona tax liability is \$1,000 or more.

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Part A - Calculation of Underpayment

Line 1 - Arizona Tax Liability

Enter the 1995 Arizona tax liability from Form 99T, line 4; Form 120, line 25; or Form 120S, line 21. Taxpayers that filed amended consolidated returns and have a retroactive consolidation tax payment credit available should use the Arizona tax liability after application of that credit for purposes of computing underpayment of estimated tax.

Taxpayers computing the Arizona tax liability under the claim of right provisions of A.R.S. § 43-1130.01 should use the Arizona tax liability reduced by those provisions for purposes of computing underpayment of estimated tax.

Line 2 - Required Annual Payment

The Arizona required annual payment of estimated tax is the smaller of:

1. Ninety percent of the taxpayer's Arizona tax liability for the current taxable year; or
2. Forms 99T and 120 filers - one hundred percent of the taxpayer's Arizona tax liability for the prior taxable year providing a tax return was filed showing a tax liability greater than zero.

Form 120S filers - an amount equal to the sum of: (a) ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in-gains income or certain capital gains income; plus (b) one hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

Line 2a - (Form 99T, 120, and 120S Filers)

Multiply line 1 by **90** percent. Enter the result on line 2a.

Line 2b - (Form 99T and 120 Filers)

Determine the amount of the taxpayer's Arizona tax liability from the prior taxable year - 1994 Form 120, line 25; 1994 Form 99T, line 4. Enter this amount on line 2b.

Do not complete this line if: (1) a return was not filed for the taxable year showing at least some amount of tax liability (an amount greater than zero), or (2) the 1994 taxable year was a period of less than twelve months. Skip line 2b and enter the amount from line 2a on line 2d.

Line 2c - (Form 120S Filers)

Enter an amount on line 2c that is the sum of:

1. Ninety percent of the portion of the 1995 Arizona tax liability that is

attributable to built-in gains income or certain capital gains income, plus

2. One hundred percent of the portion of the 1994 Arizona tax liability that is attributable to excess net passive income.

NOTE: *The requirement that the 1994 tax return show a liability for tax related to excess net passive income does not apply.*

Do not complete this line if: The 1994 taxable year was a period of less than twelve months. Skip line 2c and enter the amount from line 2a on line 2d.

Line 2d - (Form 99T, 120, and 120S Filers)

Forms 99T and 120 filers: Enter the smaller of line 2a or line 2b (if an amount was entered on line 2b).

Form 120S filers: Enter the smaller of line 2a or line 2c, (if an amount was entered on line 2c).

Line 3 - Installment Due Dates

Calendar year taxpayers: Enter 4/17/95, 6/15/95, 9/15/95, and 12/15/95, respectively, in columns (a) through (d).

Fiscal year taxpayers: Enter the 15th day of the 4th, 6th, 9th, and 12th months of the taxable year in columns (a) through (d). If the installment due date falls on a weekend or legal holiday, the payment is considered timely if made on the next business day.

NOTE: *For short period returns, enter the installment due dates and the number of installments as required by the Internal Revenue Service.*

Line 4 - Required Installments

Each required installment is **25** percent of the required annual payment (line 2d) unless a lower required installment applies (line 4a or line 4b).

Line 4a - Annualized Income Installment or Adjusted Seasonal Installment Method

This method may be used by filers of Forms 99T, 120, and 120S.

If the taxpayer's income varied during the taxable year because, for example, it operates its business on a seasonal basis, it may be able to lower the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method.

The Form 220 worksheet must be used by the taxpayer in order to use one or both of these methods to calculate one or more required installments.

If the worksheet is used for any payment due date, it must be used for all payment due dates. Use the worksheet to arrive at the amount of each required installment and to select the lesser of: (a) the annualized income installment; (b) the adjusted seasonal installment (if applicable); or (c) the regular installment (**25** percent of the required annual payment) increased by any reduction recapture under IRC § 6655(e)(1)(B).

If the taxpayer is using only the annualized income installment method, complete Parts I and III of the worksheet. If the taxpayer is using only the seasonal installment method, complete Parts II and III of the worksheet. If the taxpayer is using both methods, complete the entire worksheet. In each column on line 4, enter the amounts from the corresponding column of line 46 of the worksheet. Attach a copy of the worksheet to Form 220 and check the box on line 4a.

Line 4b - Large Corporations (Form 120 Filers)

"Large corporation" means a corporation or unitary group of corporations if the corporation, or a predecessor corporation, had federal taxable income of one million dollars or more for any of the immediately preceding three taxable years, excluding any federal net operating loss or capital loss carrybacks or carryovers. An Arizona affiliated group filing a consolidated return pursuant to ARS § 43-947 is treated as a single corporation for purposes of applying the large corporation definition.

If the annualized income installment method or the adjusted seasonal installment method is not used, follow

the instructions below to compute the amounts to enter on line 4. (If the annualized income installment method and/or the adjusted seasonal installment method are used, these instructions apply to Part III, line 42, of the Worksheet.)

If line 2a is less than line 2b: Enter **25** percent of line 2a in columns (a) through (d) of line 4.

If line 2b is less than line 2a: Enter **25** percent of line 2b in column (a) of line 4. In column (b), determine the amount to enter by: (i) subtracting line 2b from line 2a, (ii) adding the result to the amount on line 2a, and (iii) multiplying the total by **25** percent. In columns (c) and (d), enter **25** percent of line 2a.

Line 5 - Amount Paid or Credited

In column (a), enter the estimated tax payments paid by the 15th day of the fourth month of the taxable year. In column (b), enter the payments that the taxpayer made after the 15th day of the fourth month through the 15th day of the sixth month of the taxable year. In column (c), enter payments that the taxpayer made after the 15th day of the sixth month through the 15th day of the ninth month of the taxable year. In column (d), enter payments made after the 15th day of the ninth month through the 15th day of the 12th month of the taxable year.

The payment of a required installment will be applied in the order in which the installments are required to be paid.

The taxpayer must include in its estimated tax payments any overpayment of tax from its 1994 Arizona tax return that the taxpayer elected to apply to its 1995 Arizona estimated tax.

Unless otherwise designated by the taxpayer, the overpayment of tax from the taxpayer's 1994 Arizona tax return will be applied to the first required installment of estimated tax for the 1995 Arizona tax return.

Line 11 - Underpayment

This amount (an amount greater than zero) is the underpayment of a required installment. If an amount greater than zero is entered here, the taxpayer should

complete Part B to calculate the underpayment penalty.

Part B - Underpayment of Estimated Tax Penalty

The underpayment of estimated tax penalty is imposed on any required installment of estimated tax that is late or underpaid. The penalty is equal to the interest that would accrue under ARS § 42-134 on the amount not paid for the period of nonpayment, not to exceed **10** percent of the amount not paid.

Compute the underpayment penalty for any underpayment of a required installment for the period of nonpayment on page 2, Part B, lines 17 through 35. "Underpayment" refers to a late payment or underpayment of a required installment.

Compute the penalty by applying the applicable rate to each underpayment. The penalty is computed for the number of days that the underpayment remained unpaid or until the original due date of the return, whichever is earlier.

The Arizona interest rates are established at various times during the year (Arizona interest rates are the interest rates prescribed by IRC § 6621 for each calendar quarter).

If the taxpayer has made more than one payment for a required installment, attach a separate computation for each payment.

NOTE FOR COMPOUND PENALTY

AMOUNT: The penalty is compounded annually (on January 1 of each year) on any underpayment of an installment outstanding as of that date. The compound penalty amount is added to the principal amount of the underpayment. The amount added to the principal accrues penalty until the underpayment is paid or until the original due date of the return, whichever is earlier.

Line 13 - Penalty Limitation

The penalty for an underpayment of a required installment cannot exceed **10** percent of the amount not paid. In columns (a) through (d), enter the

smaller of: (1) the amount from Part A, line 11, multiplied by **10** percent; or (2) the amount from page 2, Part B, line 35.

Line 14 - Penalty

Add columns (a) through (d) on line 13 and enter the total. This is the total underpayment of estimated tax penalty.

Part C - Interest

Compute the interest on any late or underpaid required installments on pages 2 and 3, Part C, lines 36 through 55. Enter the total from page 3, Part C, line 55, on page 1, Part C, line 15.

Compute the interest by applying the applicable rate to each underpayment. "Underpayment" refers to a late payment or underpayment of a required installment. The interest is computed for the number of days that the underpayment remained unpaid or until the original due date of the return, whichever is earlier.

The Arizona interest rates are established at various times during the year (Arizona interest rates are the interest rates prescribed by IRC § 6621 for each calendar quarter).

If the taxpayer has made more than one payment for a required installment, attach a separate computation for each payment.

NOTE FOR COMPOUND INTEREST

AMOUNT: Interest is compounded annually (on January 1 of each year) on any interest outstanding as of that date. The compound interest amount is added to the principal amount of the underpayment. The amount added to the principal accrues interest until the underpayment is paid or until the original due date of the return, whichever is earlier.

Part D - Total Penalty and Interest

Add the amounts from Part B, line 14, and from Part C, line 15. Enter the total on Form 220, page 1, Part D, line 16, and on Form 99T, line 11; Form 120, line 33; Form 120S, line 28. This is the total penalty and interest for the underpayment of estimated taxes.

Worksheet Instructions**Part I - Annualized Income Installment Method****Line 1 - Annualization Periods -**

Enter in the space on line 1, columns (a) through (d), respectively, the annualization period that the taxpayer is using.

Standard Option - Form 120 and Form 120S filers: enter "3" in column (a), "3" in column (b), "6" in column (c), and "9" in column (d). Form 99T filers: enter "2" in column (a), "3" in column (b), "6" in column (c), and "9" in column (d).

Option 1 - All taxpayers: enter "2" in column (a), "4" in column (b), "7" in column (c), and "10" in column (d).

Option 2 - All taxpayers: enter "3" in column (a), "5" in column (b), "8" in column (c), and "11" in column (d).

Line 3 - Annualization Amounts -

Enter the annualization amounts for the option used on line 1 above.

Standard Option - Form 120 and Form 120S filers: enter "4" in column (a), "4" in column (b), "2" in column (c), and "1.33333" in column (d). Form 99T filers: enter "6" in column (a), "4" in column (b), "2" in column (c), and "1.33333" in column (d).

Option 1 - All taxpayers: enter "6" in column (a), "3" in column (b), "1.71429" in column (c), and "1.2" in column (d).

Option 2 - All taxpayers: enter "4" in column (a), "2.4" in column (b), "1.5" in column (c), and "1.09091" in column (d).

Line 5 -

Calculate the tax on the amount in each column using the instructions for Form

99T, line 4, or Form 120, line 18, or Form 120S, line 14.

Line 6 -

Enter the tax from the recapture of the environmental technology facility credit and/or the recycling equipment credit. Calculate this amount using the instructions for Form 120, line 19, or Form 120S, line 15. Form 99T filers, enter zero.

Line 8 -

Enter the tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings used to calculate annualized taxable income. Calculate this amount using the instructions for Form 120, line 21 or Form 120S, line 17. Form 99T filers, enter zero here.

Line 10 -

Enter the amount of the correctional industries recapture tax, if applicable; refer to the instructions for Form 120, line 24, or Form 120S, line 20. Form 99T filers, enter zero here.

Line 14 -

Before completing line 14 in columns (b) through (d), complete line 15, Part II (if applicable), and lines 41 through 46, in each of the preceding columns. For example, complete line 15, lines 16 through 40 (if using the adjusted seasonal installment method), and lines 41 through 46, in column (a) before completing line 14 in column (b).

Part II - Adjusted Seasonal Installment Method

Do not complete this part unless the taxpayer's base period percentage for any six consecutive months of the taxable year equals or exceeds 70 percent. The term "base period

percentage" for any period of six consecutive months is the average of the three percentages calculated by dividing the taxable income for the corresponding six month period in each of the three preceding taxable years by the taxable income for each of their respective taxable years.

Line 25 -

Calculate the tax on the amount in each column using the instructions for Form 99T, line 4, or Form 120, line 18, or Form 120S, line 14.

Line 32 -

Calculate the tax from the recapture of the environmental technology facility credit and/or the recycling equipment credit. Use the instructions for Form 120, line 19, or Form 120S, line 15. Form 99T filers, enter zero.

Line 34 -

Enter the tax credits to which the taxpayer is entitled because of events that occurred during the months shown in the column headings above line 16. Calculate this amount using the instructions for Form 120, line 21, or Form 120S, line 17. Form 99T filers, enter zero here.

Line 36 -

Enter the amount of the correctional industries recapture tax, if applicable; refer to the instructions for Form 120, line 24, or Form 120S, line 20. Form 99T filers, enter zero here.

Line 39 -

Before completing line 39 in columns (b) through (d), complete lines 40 through 46 in each of the preceding columns. For example, complete lines 40 through 46 in column (a) before completing line 39 in column (b).